

PUBLIC DISCLOSURE

November 28, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Oaks Bank
Certificate Number: 24229

545 Twelfth Street
Paso Robles, California 93446

Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

General Information.....	1
Institution's Community Reinvestment Act Rating.....	2
Scope of Examination	4
Description of Institution	6
Description of Assessment Area.....	7
Conclusions with Respect to Performance Tests	11
Glossary	22

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Heritage Oaks Bank (HOB)** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 28, 2011**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The bank's CRA performance depicts a satisfactory practice of providing for the credit needs of its assessment area (AA). This rating is supported by the following:

Lending Test

- The bank's net loan-to-deposit (NLTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs.
- A substantial majority of the bank's loans are made inside the bank's AA.
- The bank's distribution of borrowers reflects reasonable penetration among businesses of different revenue sizes, given the demographics of the AA and individuals of different income levels.
- The geographic distribution of loans reflects reasonable dispersion of loans throughout its AA.
- No CRA-related complaints have been received since the bank's prior evaluation.

Community Development Test

- The institution's community development (CD) performance demonstrates adequate responsiveness to the CD needs of its AA through community development loans (CDLs), qualified investments, and CD services as appropriate, considering the institution's capacity as well as the need and availability of such opportunities for CD in the institution's AA.
- The bank extended 23 CDLs totaling \$37.9 million during the evaluation period.
- The bank made an adequate level of qualified investments and donations totaling 81 by number for \$4.7 million.
- Bank representatives dedicated 1,782 hours of CD services to 16 qualified organizations.

Fair Lending or Other Illegal Credit Practices Review

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

SCOPE OF EXAMINATION

Examiners evaluated HOB utilizing intermediate small bank (ISB) examination procedures. An ISB, per the CRA Evaluation guidelines, is an institution that as of December 31, 2010, and the prior calendar year-end (2009) had total assets of at least \$280 million, but less than \$1.122 billion. This evaluation reflects the bank's CRA performance since the prior evaluation of November 18, 2008, at which time the bank received a "Satisfactory" CRA Rating.

The current evaluation was conducted at HOB's headquarter in Paso Robles, California. Examiners relied on records and reports provided by the institution, publicly available loan and financial information, demographic information, and information gathered as part of the examination process. Examiners evaluated HOB's CRA performance in the context of the following seven points:

- The current economic environment
- Demographic characteristics of the bank's AA
- Lending opportunities within the bank's AA
- Competition from other financial institutions
- The bank's product offerings and business strategy
- The bank's locations and availability of bank offices
- Information derived from community contacts.

Examiners analyzed HOB's NLTD ratio since its November 18, 2008, CRA Performance Evaluation to gauge its level of lending. In addition, examiners reviewed originated home mortgage and small business loans to evaluate the following factors: 1) record of lending within the AA, 2) record of lending to businesses of different revenue sizes and borrowers of different incomes, and 3) geographic distribution of loans among low- and moderate-income areas. No CRA-related complaints have been received since the prior evaluation, as such the bank was not evaluated under this criterion.

Commercial loans and home mortgage loans are the bank's 2 largest loan categories, representing 75.4 percent and 21.4 percent of total loans, respectively, as of September 30, 2011. Therefore, examiners selected a random sample of the bank's small business loan originations, as well as all of the bank's 2009, 2010, and year-to-date (YTD) September 30, 2011, home mortgage loan originations as reported pursuant to the Home Mortgage Disclosure Act (HMDA) to evaluate its CRA performance. The bank's small farm loans were not analyzed due to the low volume of small farm loans originated since the prior evaluation. A substantial volume of residential real estate loans were sold on the secondary market. Small business loans were weighted more heavily in the lending test as they represent the primary focus of the bank's lending strategy.

An electronic download of the bank's loan portfolio was used to select the small business loan sample. Small business loans are defined as loans in the amount of \$1 million or less that have been reported in the "loans secured by nonfarm nonresidential properties" or "commercial and industrial loans" sections of the Call Report. A small business is

defined as a business that has \$1 million or less in gross annual revenues (GARs). Examiners evaluated the bank's small business lending performance by sampling loans originated in 2009, 2010, and YTD September 30, 2011. During this period, 500 small business loans totaling \$98.9 million were originated. A statistical sample of 37 small business loans for each year totaling \$7.3 million, \$8.5 million, and \$7.6 million were selected for review.

As stated previously, all of the bank's HMDA-reportable loans were included in the review. In 2009, 2010, and YTD September 30, 2011, the bank originated 462, 481, and 310 home mortgage loans totaling \$155.1 million, \$163.9 million, and \$104.9 million, respectively. All aggregate HMDA lending data used in the analysis is for the years 2009 and 2010. Aggregate lending data for 2011 was not available at the time this evaluation was completed.

The institution's performance by dollar volume generally mirrors the performance by number of loans. Examiners did not identify any lending anomalies.

Examiners analyzed all CD-related loans, investments, and services from the date of the prior Performance Evaluation to the date of this evaluation as made available by the bank.

A review of the FDIC records, as well as the institution's CRA public file, did not reveal any complaints relating to the institution's CRA performance since the prior evaluation.

DESCRIPTION OF INSTITUTION

HOB is headquartered in Paso Robles, California, and is a wholly-owned subsidiary of Heritage Oaks Bancorp, a one-bank holding company. HOB is a full-service commercial

bank offering a wide range of loan and deposit products tailored to fit the needs of the community. Most of the bank's customers are primarily retail customers and small- to medium-sized businesses.

HOB operates 14 retail banking offices throughout San Luis Obispo County (9) and Santa Barbara County (5). Since the previous CRA evaluation, HOB relocated a branch within the city of San Luis Obispo (SLO) and closed a branch in San Miguel, CA. Of HOB's 14 offices, 1 is located in low-income, 5 in moderate-income, 7 in middle-income, and 1 in upper-income census tracts (CTs). The hours of operation and availability of products and services are tailored to the convenience and needs of bank customers. The bank offers Saturday lobby hours at six locations and drive up hours at eight locations. One branch in Paso Robles has Sunday drive-up hours. Every bank branch has an automated teller machine. Customers can access their account information by using the bank's websites, www.heritageoaksbank.com and www.businessfirst.com, or by calling the bank's toll free number. Business First Bank is a division of HOB after HOB acquired and merged its operations in 2007.

HOB offers a variety of loan and deposit products to its business and consumer customers. Loan products include commercial real estate, commercial construction, Federal Housing Administration (FHA), mortgage, auto, boat, recreational vehicle, personal home equity, home construction, credit cards, and agriculture loans. In addition, HOB has an active Small Business Administration (SBA) lending unit that assists small businesses with start-up loans, as well as for expansionary purposes. The bank is approved for lending under the 504, 7(a), and SBA Express Programs. The bank does not retain most of the long-term home mortgage loans it originates, as these loans are sold in the secondary market and underwritten to the investors' guidelines. Additionally, the guaranteed portions of originated SBA loans are sold in the secondary market. This practice frees up funds for other lending within the bank's communities.

As of September 30, 2011, the bank had total assets of \$978.9 million, total loans of \$660.1 million, and total deposits of \$802.4 million. The composition of the bank's loan portfolio, as of September 30, 2011, is shown in Table 1.

Table 1 - Loan Portfolio Distribution as of September 30, 2011		
Loan Type	Dollar Volume (000)	Percentage of Total Loans
Construction and Land Development	49,686	7.5
Secured by Farmland	10,432	1.6
Revolving Open-end 1 to 4 Family Residential	30,388	4.6
Closed-end 1 to 4 Family Residential First Lien	32,084	4.9
Closed-end 1 to 4 Family Residential Junior Lien	2,463	0.4
Multi-family Residential	15,931	2.4
Total Residential Mortgage	140,984	21.4
Commercial Real Estate	363,487	55.1
Total Real Estate Secured	504,471	76.5
Loans to Finance Agricultural Production	15,864	2.4
Commercial and Industrial Loans	134,048	20.3
Consumer Credit Cards	905	0.0
Other Consumer Revolving Loans	574	0.0
Closed-end Consumer Loans	5,166	0.8
Obligations of States and Political Subdivisions	0	0.0
Other Loans	295	0.0
Less: Any Unearned Income on Loans	(1,210)	0.0
Total Loans	660,113	100.0
<i>Source: September 30, 2011 Consolidated Report of Condition</i>		

DESCRIPTION OF ASSESSMENT AREA

HOB has designated SLO and Santa Barbara Counties as its AA. These two counties comprise two different metropolitan statistical areas (MSAs): the SLO-Paso Robles, California MSA #42020, and the Santa Barbara-Santa Maria-Goleta, California MSA #42060. SLO and Santa Barbara Counties are contiguous and contain multiple metropolitan areas. As such, these counties are combined as one AA for CRA Evaluation purposes. This AA meets regulatory requirements and does not arbitrarily exclude LMI neighborhoods. Each county is individually detailed below.

SAN LUIS OBISPO COUNTY

Demographic Data

The bank operates its main administrative office and nine branch offices in SLO County. This county is located in central California along the Pacific Ocean coast. It encompasses the Cities of Arroyo Grande, Atascadero, Cambria, Morrow Bay, Paso Robles, Pismo Beach, and SLO. The bank's headquarters is in Paso Robles, which is 205 miles north of Los Angeles and 200 miles south of San Francisco. The bank has offices in the towns of Arroyo Grande, Atascadero, Cambria, Morrow Bay, Paso Robles, SLO,

and Templeton.

SLO County contains 44 CTs (0 low-, 8 moderate-, 30 middle-, 5 upper-income, and 1 CTs with no income reported). Moderate-income CTs account for 18.2 percent of the total number of CTs in SLO County. The total population of SLO County, according to the 2000 U.S. Census data, was approximately 246,681. Table 2 shows selected demographic data about SLO County.

Table 2 – Demographic Characteristics of San Luis Obispo County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Census Tracts	44	0.0	18.2	68.2	11.3	2.3
Population by Census Tract Income Level	246,681	0.0	16.7	69.5	13.8	0.0
Owner-Occupied Housing Units by Census Tract Income Level	56,992	0.0	10.3	75.4	14.3	0.0
Businesses by Census Tract Income Level	32,691	0.0	18.7	67.5	13.8	0.0
Families by Income Level	58,954	18.6	18.9	22.6	39.9	0.0
Families by Census Tract Income Level	58,954	0.0	13.8	73.3	12.9	0.0
Median Family Income		\$53,637	Median Housing Value		\$233,023	
HUD Adjusted Median Family Income for 2011		\$74,400				
Households Below Poverty Level		11.8%				
Source: 2000 U.S. Census Data, State of California 2011 D&B Data						

In 2011, there were 32,691 total businesses located in SLO County. Of this total, 23,196 or 71.0 percent were considered small businesses (businesses with GAR of \$1 million or less). Approximately 0 percent and 18.7 percent of businesses are located in LMI CTs, respectively. Commercial lending opportunities appear to be available in moderate-, middle-, and upper-income CTs in SLO County, as shown in Table 2.

Economic Data

The following economic information is obtained from Moody's Economy.com (April 2011).

The recovery in SLO-Paso Robles has strengthened appreciably in the past four months, as goods' producers have stopped laying off workers and service providers have hired aggressively. Healthcare, tourism, retail, and professional/business services payrolls have all expanded noticeably. The unemployment rate at 9.7 percent is well below the statewide average of 12 percent. Home sales have decreased alongside home prices, but the low housing affordability is still a weakness.

The SLO-Paso Robles economy is expected to strengthen in the second half of 2011 and in 2012 as a result of a reviving wine industry, broad services expansion, and an end to the housing downturn. In the long-term, a heavy dependence on government and a lack

of growth drivers will prohibit SLO from outpacing the state or nation in terms of employment and income growth, even though in-migration will fuel above average population gains.

The area's largest employer is the Atascadero State Hospital, which employs 2,300 employees, followed by California Men's Colony and Cal Poly SLO with 2,000 and 1,912 employees, respectively.

SANTA BARBARA COUNTY

Demographic Data

The bank operates five branch offices in Santa Barbara County. This county is also located in central California along the Pacific Ocean coast just south of SLO County. It encompasses the Cities of Lompoc, Orcutt, Guadalupe, Montecito, Santa Barbara, Santa Maria, and about 20 others. Santa Barbara is approximately 100 miles north of Los Angeles and 335 miles south of San Francisco. The bank has offices in the towns of Santa Maria, Orcutt, and Santa Barbara.

Santa Barbara County contains 86 CTs (4 low-, 26 moderate-, 29 middle-, 27 upper-income, and 0 CTs with no income reported). LMI CTs account for 4.7 percent and 30.2 percent of the total number of CTs in Santa Barbara County, respectively. The total population of Santa Barbara County, according to the 2000 U.S. Census data, was approximately 399,347. Table 3 shows selected demographic data about Santa Barbara County.

Table 3 – Demographic Characteristics of Santa Barbara County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Census Tracts	86	4.7	30.2	33.7	31.4	0.0
Population by Census Tract Income Level	399,347	6.1	31.6	33.2	29.1	0.0
Owner-Occupied Housing Units by Census Tract Income Level	76,579	1.0	17.4	39.9	41.7	0.0
Businesses by Census Tract Income Level	41,572	2.2	32.3	32.9	32.6	0.0
Families by Income Level	90,314	20.0	18.6	20.4	41.0	0.0
Families by Census Tract Income Level	90,314	3.6	27.0	35.8	33.6	0.0
Median Family Income		\$58,409	Median Housing Value		\$323,962	
HUD Adjusted Median Family Income for 2011		\$72,300				
Households Below Poverty Level		11.6%				
Source: 2000 U.S. Census Data, State of California 2011 D&B Data						

In 2011, there were 41,572 total businesses located in Santa Barbara County. Of this total, 28,863 or 69.4 percent are considered small businesses (businesses with GARs of \$1 million or less). Approximately 2.2 percent and 32.3 percent of businesses are located

in LMI CTs, respectively.

Economic Data

The following economic information is obtained from Moody's Economy.com (August 2011).

The recovery in Santa Barbara County lacks vigor as hiring has trailed that of the state and the nation in recent months. Gains in leisure/hospitality are being offset primarily by losses in state and local government. The unemployment rate at 9 percent is 3 percentage points lower than California's. This is misleading; unemployment is underreported, as the labor force is falling. The housing market is languishing. In the second quarter, existing home sales and prices declined more sharply than in California and nationally, but the high cost of living is still a weakness.

Hiring in Santa Barbara is expected to lag the state and national averages in the near term. A declining housing market may weigh on construction, while public austerity measures may lead to layoffs. Meanwhile, leisure/hospitality and professional services are expected to support growth. High-tech firms and universities provide stability and upside potential. Beyond the recovery, employment growth is expected to be in line with the national average; however, output may lag because of weak population and income growth. The area's largest employer is the University of California Santa Barbara, which employs 6,230 employees followed by Vandenberg Air Force Base with 5,386 employees.

Competition and Market Share Profile

Using peer data as of June 30, 2011, the bank competes with 25 other financial institutions operating 169 offices within the AA. HOB competes with several institutions, under different regulatory charters, for deposits and loans. Large financial institutions with local offices in the AA include Wells Fargo Bank NA, Bank of America NA, JPMorgan Chase Bank NA, Citibank NA, Union Bank NA, and US Bank NA. The bank is ranked 6th with a deposit market share of 5.37 percent.

The mortgage market share indicates that Bank of America NA was the leading mortgage lender in 2010, capturing 14.9 percent of the market. HOB was ranked 13th with 2.2 percent of the market by number of mortgage loans. Other major mortgage lenders within the AA include Wells Fargo Bank NA, J.P. Morgan Chase Bank NA, and Citimortgage Inc.

Community Contact

Examiners reviewed two recent community contacts in conjunction with this evaluation. The contacts included an economic development and a women-owned business association. The contacts stated that there is need for small business lending and affordable housing in the AA. Tighter controls make it difficult to obtain credit from

financial institutions with the weak economy. One contact mentioned there is also a need to coach local small business owners, local non-profits, local officials, and youth in the community. The other contact indicated there are also opportunities for commercial expansion. There are limited CD opportunities within the bank's AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Loan-to-Deposit Ratio

HOB's NLTD ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. HOB's average NLTD ratio since November 18, 2008, is 90.3 percent. The ratio is higher than other institutions with NLTD ratios that range from 66.7 percent to 84.0 percent. These institutions are of comparable size, market area, and product mix. HOB has a NLTD ratio of 81.2 percent for the last 4 quarters. The ratio is also higher than other comparable institutions with NLTD ratios that range from 55.5 percent to 77.8 percent.

Table 4 – Loan-to-Deposit Ratio Comparison		
Institution	Ratio Since 11/18/2008	Ratio Over Last 4 Quarters
Heritage Oaks Bank	90.3%	81.2%
Comparable Institution 1	84.0%	77.8%
Comparable Institution 2	66.7%	60.6%
Comparable Institution 3	72.8%	55.5%
<i>Source: Consolidated Reports of Condition and Income</i>		

Assessment Area Concentration

A substantial majority of the bank's loans are made in the bank's AA by both number and dollar volume. The high AA concentration percentages reflect the bank's commitment to lending within the communities it serves. Table 5 depicts the bank's small business and home mortgage lending inside and outside the AA in 2009, 2010, and YTD September 30, 2011.

Table 5 - Distribution of Loans Inside and Outside the Assessment Area										
Loan Type	Number of Loans					Dollar Amount of Loans				
	Inside Assessment Area		Outside Assessment Area		Total	Inside Assessment Area		Outside Assessment Area		Total
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Small Business										
2009	36	97.3	1	2.7	37	7,288	99.8	18	0.2	7,306
2010	35	94.6	2	5.4	37	8,409	98.9	90	1.1	8,499
YTD 9/30/11	36	97.3	1	2.7	37	6,665	87.2	975	12.8	7,640
Subtotal	107	96.4	4	3.6	111	22,362	95.4	1,083	4.6	23,445
HMDA										
2009	415	89.8	47	10.2	462	140,588	90.7	14,501	9.3	155,089
2010	425	88.4	56	11.6	481	143,806	87.7	20,119	12.3	163,925
YTD 9/30/2011	276	89.0	34	11.0	310	95,619	91.1	9,313	8.9	104,932
Subtotal	1,116	89.1	137	10.9	1,253	380,013	89.6	43,933	10.4	423,946
Total	1,223	89.7	141	10.3	1,364	402,375	89.9	45,016	10.1	447,391
Source: Bank records, 2009, 2010, and YTD 9/30/2011 HMDA LAR										

Small Business Loans

As shown in Table 5, in 2009, 36 small business loans for \$7.3 million, representing 97.3 percent by number and 99.8 percent by dollar amount, respectively, were originated inside the bank's AA. The bank's small business lending for 2010, remained about the same at 94.6 percent by number and \$8.4 million or 98.9 percent by dollar amount. For YTD September 30, 2011, the bank's small business lending was the same as 2009 for the number of loans originated inside the AA; however, the dollar amount reflects a decreasing trend to 87.2 percent by dollar amount. Although the dollar amount slightly decreased year over year, the number of loans inside the AA remained consistent throughout the review period.

HMDA Loans

In 2009, the bank originated 415 HMDA loans for approximately \$140.6 million, representing 89.8 percent by number and 90.7 percent by dollar volume in the AA. The bank's HMDA lending in the AA for 2010, reflects a slightly decreasing trend to 88.4 percent by number and 87.7 percent by dollar amount due to the weak economic environment. The 276 HMDA loans originated in the AA YTD September 30, 2011, reflect an increasing trend to 89 percent by number and to 91.1 percent by dollar amount. This lending performance represents good responsiveness by the institution in meeting the credit needs of the communities it serves.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including LMI) and businesses of different revenue sizes. Examiners placed more weight on the small business lending.

Small Business Loans

Table 6 shows the bank's small business lending activity by year. For comparison purposes, the table includes the percentage of small businesses reported to D&B.

Table 6 – Small Business Loan Borrower Profile									
Gross Annual Revenues	2009 D&B	2010 D&B	2011 D&B	2009 Bank		2010 Bank		YTD 9/30/2011 Bank	
	%	%	%	#	%	#	%	#	%
≤\$1 Million	76.7	79.7	70.1	31	86.1	27	77.1	22	61.1
>\$1 Million	4.4	4.3	3.0	5	13.9	8	22.9	14	38.9
Not Applicable	18.9	16.0	26.9	0	0.0	0	0.0	0	0.0
Total	100.0	100.0	100.0	36	100.0	35	100.0	36	100.0
<i>Source: 2009, 2010, 2011 D&B, Bank Records</i>									

The analysis shows that the bank's 2009 small business lending to businesses with GARs of \$1 million or less, by number of loans, at 86.1 percent exceeds the percentage of small businesses at 76.7 percent.

In 2010, the bank's small business lending activity reflects a slight decrease in the percentage of loans to businesses with GARs of \$1 million or less at 77.1 percent, and is just below the percentage of small businesses at 79.7 percent.

YTD September 30, 2011, reflects a moderate decrease in the percentage of loans to businesses with GARs of \$1 million or less at 61.1 percent and remains below the percentage of small businesses at 70.1 percent.

HOB's performance in small business lending is mitigated by the current economic conditions and the bank's lending focus on medium-sized businesses in addition to small businesses.

HMDA Loans

Table 7 shows the distribution of the bank's HMDA loans, by number of loans, among borrowers of different income levels for 2009, 2010, and YTD September 30, 2011. The income distribution of the total number of families and aggregate lending data for 2009 and 2010 in the AA are also shown for comparison purposes.

Table 7 - HMDA Loan Borrower Profile									
Borrower Income Level	Families	2009 Aggregate Data	2010 Aggregate Data	2009 Bank		2010 Bank		YTD 9/30/2011 Bank	
	%	%	%	#	%	#	%	#	%
Low	19.4	3.3	3.5	14	3.4	16	3.8	5	1.8
Moderate	18.7	11.4	10.9	42	10.1	47	11.1	33	12.0
Middle	21.3	20.6	20.2	85	20.5	88	20.7	60	21.7
Upper	40.6	53.4	51.8	272	65.5	259	60.9	176	63.8
Income Not Reported	0.0	11.3	13.6	2	0.5	15	3.5	2	0.7
Total	100.0	100.0	100.0	415	100.0	425	100.0	276	100.0
<i>Source: 2000 U.S. Census, 2009 and 2010 Aggregate Lending Data, 2009, 2010, and YTD 9/30/2011 HMDA LAR</i>									

The analysis shows that the bank's 2009 HMDA lending to low-income borrowers, by number of loans, at 3.4 percent is slightly greater than the aggregate lending data at 3.3 percent. Lending to moderate-income borrowers at 10.1 percent; however, is below the aggregate lending data by 1.3 percent. The bank's 2009 HMDA lending to both LMI borrowers is way below the percentage of families within that income level in the AA.

Year 2010 shows an increase in the percentage of HMDA loans to both low-income borrowers at 3.8 percent and to moderate-income borrowers at 11.1 percent. The bank's 2010 HMDA lending to both LMI borrowers is slightly greater than the aggregate lending data by 0.3 percent and 0.2 percent, respectively. However, HMDA lending to both LMI borrowers is way below the percentage of families within that income level in the AA.

As of September 30, 2011, the percentage of HMDA lending to low-income borrowers dropped by 2 percent which is way below the percentage of low-income families in the AA. However, the percentage of HMDA lending to moderate-income borrowers increased by 0.9 percent although it is still 6.7 percent below the percentage of moderate-income families in the AA. Aggregate lending data is not available for 2011.

Examiners placed more weight on the comparison to aggregate lending data versus the percentage of families within that income level in the AA, as it is more reflective of the credit needs as well as lending opportunities in the AA. In addition, the bank's record of making HMDA loans to LMI families is expectedly low due to the low affordability of homes in the AA, making home purchase loans unaffordable to many of the LMI families.

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA.

Small Business Loans

Table 8 shows the distribution of the bank's small business lending activity by year and

CT income level within the AA. For comparison purposes, the table includes the percentage of small businesses reported to D&B.

Table 8 – Small Business Loan Geographic Distribution									
Census Tract Income Level	2009 D&B	2010 D&B	2011 D&B	2009 Bank		2010 Bank		YTD 9/30/2011 Bank	
	%	%	%	#	%	#	%	#	%
Low	1.6	1.5	1.2	0	0.0	0	0.0	0	0.0
Moderate	29.0	27.6	26.3	13	36.1	15	42.9	10	27.8
Middle	47.2	47.7	48.2	15	41.7	18	51.4	16	44.4
Upper	22.2	23.2	24.3	8	22.2	2	5.7	10	27.8
N/A	0.0	0.0	0.0	0	0.0	0	0.0	0	0.0
Total	100.0	100.0	100.0	36	100.0	35	100.0	36	100.0
<i>Source: 2009, 2010, YTD 9/30/2011 D&B, Bank Records</i>									

Based on the sample of small business loans, the bank did not originate any loans in a low-income CT during the review period. This is mitigated by the fact that there are only four low-income CTs in the bank's AA. Also, D&B data for all 3 years only has less than 2 percent of businesses in the area located in low-income CTs.

As shown in Table 8, the bank's penetration in moderate-income CTs in 2009 at 36.1 percent exceeds the percentage of businesses at 29.0 percent. The bank's activity in 2010 reflects an increasing trend at 42.9 percent and surpasses the percentage of businesses at 27.6 percent. Lending in moderate-income CTs decreased considerably as of YTD September 30, 2011, to 27.8 percent, but is still greater than the percentage of reported businesses at 26.3 percent. The bank's performance is reasonable given that the bank's AA only has 34 (26 percent) moderate-income CTs and that middle-income CTs make up a majority of the bank's AA at 45 percent.

HMDA Loans

Table 9 shows the bank's geographic distribution, by year, for number of HMDA loans originated. For comparison purposes, 2009 and 2010 aggregate lending data and the percentage of owner-occupied housing units were utilized.

Table 9 - HMDA Loan Geographic Distribution									
Census Tract Income Level	Owner- Occupied Housing Units	2009 Aggregate Lending Data	2010 Aggregate Lending Data	2009 Bank		2010 Bank		YTD 9/30/2011 Bank	
	%	%	%	#	%	#	%	#	%
Low	0.5	0.5	0.5	0	0.0	1	0.2	0	0.0
Moderate	14.4	12.1	12.0	43	10.4	41	9.7	37	13.4
Middle	55.1	58.1	57.0	247	59.5	274	64.5	178	64.5
Upper	30.0	29.3	30.5	125	30.1	109	25.6	61	22.1
N/A	0.0	0.0	0.0	0	0.0	0	0.0	0	0.0
Total	100.0	100.0	100.0	415	100.0	425	100.0	276	100.0
<i>Source: 2000 U.S. Census, 2009 and 2010 Aggregate Lending Data, 2009, 2010, and YTD 9/30/2011 HMDA LAR</i>									

As shown in Table 9, the bank's percentage of 2009 HMDA lending in low-income CTs by number of loans is below both the percentage of owner-occupied housing units and the aggregate lending data by 0.5 percent. HMDA lending in moderate-income CTs at 10.4 percent is also below both 2009 aggregate lending data (by 1.7 percent) and the percentage of owner-occupied housing units (by 4 percent).

The bank's 2010 HMDA lending performance in low-income CTs reflects a slightly increasing trend by 1 loan at 0.2 percent, but HMDA lending in moderate-income CTs decreased by 0.7 percent which is less than aggregate lending data (by 2.3 percent) and the percentage of owner-occupied housing units (by 4.7 percent).

YTD September 30, 2011, data shows a decreasing trend in low-income CTs. Lending in moderate-income CTs at 13.4 percent reflects an increasing trend by 3.7 percent, but it is still 1 percent below the percentage of owner-occupied housing units. Aggregate lending data is not available for 2011.

Examiners placed more weight on the comparison to aggregate lending data versus the percentage of owner-occupied housing units, as it is more reflective of the credit needs as well as lending opportunities in the AA. The bank's performance in this lending component is somewhat mitigated by the fact that the economy is in recession, the low affordability of homes in the AA, and the bank is a commercial bank.

Response to Complaints

The bank has not received any CRA-related complaints since the prior CRA Performance Evaluation dated November 18, 2008.

COMMUNITY DEVELOPMENT TEST

Community Development Lending

Overall, HOB exhibited adequate responsiveness in CD lending. During the review period, the bank made 23 qualified CDLs totaling approximately \$37.9 million. The loans were made for affordable housing, CD services, economic development, and revitalization or stabilization. The bank's CDL volume increased from approximately \$27.6 million at the prior evaluation in 2008 to approximately \$37.9 during the current evaluation period. Current CDLs represent 3.87 percent of total assets of \$978.9 million and 5.86 percent of net loans of \$647 million as of call report date, September 30, 2011.

Table 10 represents the bank's CD lending for the review period.

Table 10 – Community Development Lending										
Year			Qualifying Category							
	Total		Affordable Housing		Community Development Services		Economic Development		Revitalization or Stabilization	
	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)
2008	5	11,535	1	2,350	1	150	1	1,720	2	7,315
2009	10	13,420	3	4,195	0	0	3	5,650	4	3,575
2010	5	8,253	0	0	0	0	1	1,112	4	7,141
As of 11/28/11	3	4,700	0	0	1	2,000	1	1,500	1	1,200
Total	23	37,908	4	6,545	2	2,150	6	9,982	11	19,231
<i>Source: Bank records</i>										

The following are examples of CDLs originated by the bank during the review period:

- HOB originated 4 loans for \$1.49 million to rebuild 3 residences and 1 commercial property that were destroyed during the Tea Fire in November 2008. The area was declared a Major Disaster Area by FEMA.
- HOB originated a \$2 million loan in conjunction with the State of California, Department of Corrections and Rehabilitation to provide dental, medical, and psychological services to state inmates.
- HOB originated a \$2.4 million loan in conjunction with the City of Paso Robles to provide Section 8 subsidy housing for senior citizens.
- HOB provided a \$135,000 loan to an organization that provides affordable housing for LMI individuals through sweat equity.

- HOB refinanced a \$2 million loan to a residential care facility which provides permanent jobs to LMI individuals.

Community Development Investments

HOB's level of qualified investments demonstrates reasonable responsiveness to the CD needs of its AA. The types of qualified investments and grants include affordable housing, small business, and CD project needs within the bank's AA consistent with the bank's financial resources and capacity. Additionally, the bank's donation activity supports the various CD organizations operating inside the bank's AA. During the review period, HOB awarded 81 qualified investments, grants, and donations for \$4.7 million. Included in these numbers are 3 investments for \$572,000 still outstanding from the 2008 CRA Evaluation.

Table 11 shows the number and dollar amounts of both new and prior period investments:

Table 11 – Community Development Investments										
Year	Total		Affordable Housing		Community Development Services		Economic Development		Revitalization or Stabilization	
	#	\$ (000)	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
Prior Period	3	572	0	0	2	552	1	20	0	0
2009	2	480	0	0	2	480	0	0	0	0
2010	2	400	0	0	2	400	0	0	0	0
YTD 11/28/2011	2	3,071	2	3,071	0	0	0	0	0	0
Current Period Subtotal	6	3,951	2	3,071	4	880	0	0	0	0
Total	9	4,523	2	3,071	6	1,432	1	20	0	0
<i>Source: Bank records</i>										

The following qualified investments were made during the review period:

- Prior period investments include 2 school bonds and 1 investment in a micro-loan pool. One school bond was \$293,200 (book value as of September 30, 2011), to San Miguel Joint Union Elementary School District to finance the costs of acquiring and constructing a new elementary school in the Heritage Ranch area, a gymnasium at Larsen Elementary School, and other school improvements to be identified by the district. The other school bond was \$258,566 (book value) to SLO County Community College District to expand a satellite campus for the county's junior college due to rapid growth and need, which created new jobs and drawing staff from local CTs, including those designated as LMI. Attendance has tripled within the last decade with 90 percent of students coming from the north county. Federal and local programs are made available to students without the means to pay tuition. Students unable to afford the state university system are able to receive education at costs that are within reach. The bank also participated (\$20,000) in a micro-loan pool to help individuals in the community gain access

to credit for their small business ventures that would otherwise not be able to.

- Two new investments were made in 2009 for a total of \$480,000 (original amount). One investment was a school bond of \$100,000 to Richland School District for the renovation of existing school buildings, updating technology, purchasing land, and constructing a new elementary school. There are 3 elementary schools and 1 middle school in this district, and the entire district has 87.5 percent of students on free or reduced lunch programs. Although this investment was not made within the bank's AA, since Kern County is the neighbor county of the bank's AA and the bank made reasonable effort to first meet the need in its AA, the investment is considered a qualified CD investment. The other investment was a multiple purpose investment for acquisitions, new construction, and improvements within the city's designated redevelopment zone. Included are 2 affordable housing construction projects to LMI individuals and renovations to 2 schools located in moderate-income CTs.
- Two new investments were made in 2010 for a total of \$400,000 (original amount). Both investments were in school bonds to Paso Robles School District to finance the acquisition and construction of school facilities and the permanent improvement or renovation of existing school facilities by the district. There are 17 schools in the district, and 7 of these schools are located in moderate-income CTs.
- Two new investments were made in 2011 as of the evaluation date for a total of \$3.1 million (original amount). One investment was in Fannie Mae mortgage backed securities on a pool of 7 single family homes. The underlying collateral consists of mortgage loans that 85.7 percent were made to LMI borrowers and 42.9 percent located in LMI CTs. Since a majority of loan pool was made to LMI borrowers, the full original amount of \$1.5 million was qualified. The other investment was in Ginnie Mae mortgage-backed securities on a pool of 8 single family homes. All of the underlying collateral consists of mortgage loans represent principal dwellings of the borrowers, and all borrowers are LMI individuals.

In addition, the bank also made 12 qualified investments for a total of \$3.8 million in school bonds outside the AA, but within California.

HOB's total qualified CD investments count as 1.82 percent of the bank's total investments and 0.46 percent of the total assets.

Grants and Donations

Table 12 – Community Development Donations										
Year	Total		Affordable Housing		Community Development Services		Economic Development		Revitalization or Stabilization	
	#	\$ (000)	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
2009	16	59	1	2	13	48	2	9	0	0
2010	31	88	4	10	24	67	3	11	0	0
YTD 11/28/2011	25	69	1	5	21	59	3	5	0	0
Total	72	216	6	17	58	174	8	25	0	0
<i>Source: Bank records</i>										

As detailed in Table 12, HOB made 72 donations totaling \$216,000 to 38 different organizations during the review period. Both the number of organizations and dollar amount increased from the prior evaluation at 11 organizations and \$121,000.

Community Development Services

HOB has provided an adequate level of CD services, considering the bank's financial capacity and the need and availability of these opportunities within the bank's AA. During the review period, over 45 employees, including directors, participated in fundraising events, financial education programs, as well as serving on boards and financial committees of various community organizations that serve LMI individuals or communities. The bank provided 1,782 CD service hours to 16 qualified organizations.

A few of the more significant types of CD services provided by HOB include the following:

- A senior officer of the bank serves on the board and finance committee of an organization that provides basic life needs for the homeless.
- A director is on the board of a foster care facility which provides for long-term care of abused, neglected, or homeless children. The board provides oversight and direction to the president of the facility to ensure that the facility adheres to the overall objectives of the organization.
- Directors and members of bank staff volunteered annually to develop, promote, manage, and sponsor the Fun Run to raise money for local housing and CD organizations. All entrance fees were donated to these charitable organizations that serve SLO and Santa Barbara Counties.
- An officer of the bank provides assistance to a center that serves children from Title 1 schools. The officer assists students with homework and after school programs.

- An officer of the bank is the treasurer and provides financial assistance to an organization for orphans and LMI families.

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with

adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to

farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.